

# **OUR STATE, OUR FUTURE**

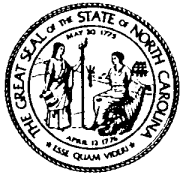
*Pathways:*

*Summary of Findings and Recommendations of the  
North Carolina Government Performance Audit Committee*

*Raleigh, North Carolina  
February 1993*

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North Carolina  
State Government Performance Audit

North Carolina General Assembly  
Government Performance Audit Committee

Legislative Office Building  
300 North Salisbury Street  
Raleigh, North Carolina 27603-5925

(919) 733-7283  
(919) 733-1667 Fax

February 1993

To: The General Assembly and Citizens of the State of North Carolina

I am very pleased to transmit to the General Assembly and the citizens of our State this report entitled *Pathways: Summary of Findings and Recommendations of the North Carolina Government Performance Audit Committee*.

*Pathways* is a listing of the Government Performance Audit Committee's findings and recommendations. It is a companion report to both: *Our State, Our Future: The Report of the Government Performance Audit Committee*, and *Issue Papers of the Government Performance Audit Committee*, a collection of in-depth analyses leading to specific recommendations; and four performance audits of State management systems.

Each *Pathways* listing includes a finding, and where applicable, recommendations, results, and page references to relevant analysis contained in the *Issue Papers*. *Pathways* begins with results of the Committee's financial model that uses economic and demographic trends to project the fiscal situation facing North Carolina in the next decade and concludes with an estimate of the financial and personnel implications of the GPAC recommendations.

Our staff has sincerely appreciated the support provided to the study by the leadership of the General Assembly, the members of the Committee, and the employees of the State of North Carolina.

Very truly yours,

A handwritten signature in cursive script, reading "Curtis Clark".

Curtis Clark  
*Executive Director*



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In the context of framing and understanding the fiscal impacts facing North Carolina in the next decade, the Government Performance Audit Committee commissioned the development of a financial model to project General Fund revenues and expenditures for the fiscal period 1993/94 through 2001/2002. These projections, along with an understanding of the major factors driving the results, allow policymakers and Committee members to deliberate the fiscal impacts of the policy choices under consideration.

The model is based on the concept that "current services" will continue at the level provided in the base year, and that expenditures associated with those service levels will be adjusted by inflation. It provides an effective tool to simulate what will happen to revenues and expenditures if the budget is allowed to grow in the future in the way it has in the past, given North Carolina's future economic and demographic outlook.

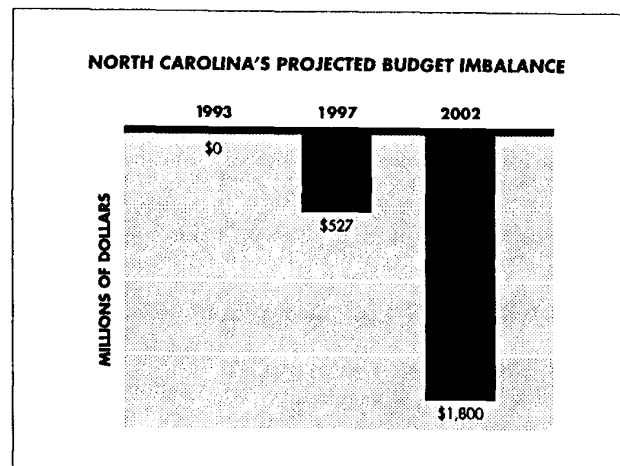
The model can be annually updated so that key decisions on current services and respective fiscal impacts can be viewed from a long-term perspective each year. This is critical to the decision-making process since:

- It allows a more complete picture of how today's decisions are impacted in the future by the area's economic and demographic trends.
- It illustrates that policy decisions that appear to have little fiscal impacts in the short run may significantly affect the State's fiscal requirements in the long run.

The detailed assumptions and results of the financial model are to be found in the associated issue paper that outlines the results of several different sets of assumptions.



Using the current services assumption, the model shows that expenditures are expected to grow faster than revenues. As the graph illustrates, the magnitude of the State's future fiscal imbalances grows significantly over time:



- No budget imbalance in 1992/1993
- \$527 million in 1997/1998
- \$1.8 billion in 2001/2002

Key growth assumptions used in this projection include the following:

- 6.3% for Personal Income
- 3.9% for Consumer Prices
- 4.0% for State salaries
- 17% for State Employee & Retiree Health Benefits
- 20% for Medicaid

The outcomes of the financial model do not mean that the State's General Fund Budget will not be balanced in the future years, but it does highlight that actions need to be taken. The challenge is to find ways of maintaining North Carolina's reputation as one of the most well managed states in the nation by managing the State's business so the quality and quantity of overall services will not be reduced nor will taxes rise disproportionately.



## PLANNING, BUDGETING AND PROGRAM EVALUATION

*Strategic Planning Process*

| FINDINGS  | RECOMMENDATIONS  | RESULTS  | REPORT PAGE |
|---|--|--|-------------|
| <p>1. The State's policy planning process is conducted within each department but not at the State level.</p>         | <ul style="list-style-type: none"> <li>▪ Establish a strategic planning process for the State which addresses the following elements:               <ul style="list-style-type: none"> <li>▪ Vision</li> <li>▪ Statewide goals</li> <li>▪ External assessment</li> <li>▪ Internal assessment</li> <li>▪ Agency goals</li> <li>▪ Objectives and measurable results</li> <li>▪ Planning/budget document</li> <li>▪ Performance measurement and monitoring</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>▪ Strengthens the current annual planning process.</li> </ul>                       | 3.7         |
| <p>2. The departmental planning process does not provide for participation by the General Assembly or the public.</p> | <ul style="list-style-type: none"> <li>▪ Create a process for citizen and legislative participation in the planning process through:               <ul style="list-style-type: none"> <li>▪ Surveys of citizens and clients</li> <li>▪ Formal legislative debate and comment on the State's "common outlook and assumptions"</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>▪ Broadens participation in and support for the policy planning process.</li> </ul> | 3.8         |

## PLANNING, BUDGETING AND PROGRAM EVALUATION

*Performance Budgeting*

| FINDINGS   | RECOMMENDATIONS  | RESULTS   | REPORT PAGE |
|--|--|---|-------------|
| 3. The State's <i>Department Plans</i> lacks sufficient linkage between resource allocation and implementation.  | <ul style="list-style-type: none"> <li>▪ Include program managers in department planning process.</li> <li>▪ Establish linkages between planning, budgeting, program delivery and program evaluation processes.</li> <li>▪ Develop program outcome indicators for the planning process that are identical to those used for ongoing program monitoring.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Encourages program manager participation in implementing the State's plan.</li> <li>▪ Allows public to comment on and General Assembly to vote on outcome indicators.</li> </ul> | 3.10        |
| 4. The State's budget process makes it difficult for legislators to weigh new priorities against old priorities. | <ul style="list-style-type: none"> <li>▪ Modify General Assembly rules of procedures to eliminate separate consideration of the continuation and expansion budgets.</li> </ul>   | <ul style="list-style-type: none"> <li>▪ Enables legislators to consider the relative benefits and costs of new versus old State priorities.</li> </ul>   | 3.15        |

## PLANNING, BUDGETING AND PROGRAM EVALUATION

*Capital Budgeting Process*

| FINDINGS   | RECOMMENDATIONS  | RESULTS  | REPORT PAGE |
|--|--|--|-------------|
| 5. The State uses its personal services budget as a rainy day fund.  | <ul style="list-style-type: none"> <li>▪ Budget for salaries at expected level of staff utilization.</li> <li>▪ Appropriate the maximum statutory amount for the State's Savings Reserve (rainy day) Account during the 1993-1995 biennium. <i>(This recommendation was not endorsed by GPAC.)</i></li> </ul>  | <ul style="list-style-type: none"> <li>▪ Ensures that the budget reflects the actual personnel costs for operating State agencies.</li> <li>▪ Funds the State's Savings Reserve Account in one year rather than in four or five years.</li> </ul>  | 3.15        |
| 6. The State's budget format encourages legislators to focus on control issues rather than management and policy issues. | <ul style="list-style-type: none"> <li>▪ Require that the Governor submit a budget that focuses on program results and reduces line item detail.</li> </ul>  | <ul style="list-style-type: none"> <li>▪ Produces better information for making appropriations decisions.</li> </ul>   | 3.21        |
| 7. The State lacks an effective capital budgeting process.   | <ul style="list-style-type: none"> <li>▪ Restructure the State's capital budgeting process.</li> <li>▪ Discontinue use of reversions to finance capital expenditures and budget salaries at expected level of staff utilization. <i>(This recommendation was not endorsed by GPAC.)</i></li> <li>▪ Develop a debt policy for funding capital needs.</li> <li>▪ Require the executive branch to conduct a ten-year capital needs assessment for the State.</li> <li>▪ The General Assembly should appropriate from 1.5 to 3.0 percent of the value of state-owned buildings each year for renovation and repair as part of the regular budget process.</li> <li>▪ The House and Senate should establish an appropriations subcommittee for capital improvements.</li> </ul> | <ul style="list-style-type: none"> <li>▪ Requires that the State plan for capital expenditures.</li> <li>▪ Focuses legislative deliberations on capital issues.</li> <li>▪ Encourages the development and use of consistent criteria for evaluating the merits of capital improvement project requests.</li> <li>▪ Protects the State's investment in capital assets.</li> </ul> | 3.27        |

## PLANNING, BUDGETING AND PROGRAM EVALUATION

*Legislative Oversight Focused on Program Results/Outcome Measures for Evaluating Program Results*

| FINDINGS   | RECOMMENDATIONS   | RESULTS   | REPORT PAGE |
|--|---|---|-------------|
| 8. Agencies (except for some universities) have no incentive to reduce expenditures.                           | <ul style="list-style-type: none"> <li>Expand the single sum appropriation pilot program to other State agencies.</li> </ul>  | <ul style="list-style-type: none"> <li>Increases State program efficiencies by utilizing incentives to reduce expenditures.</li> </ul>                              | 3.28        |
| 9. Transfer restrictions between personnel and non-personnel line items divert attention from program results. | <ul style="list-style-type: none"> <li>Amend the State Budget Act to:               <ul style="list-style-type: none"> <li>Replace line item expenditure control with program expenditure control</li> <li>Allow transfers between programs of up to 5 percent of the total appropriation</li> </ul> </li> </ul>  | <ul style="list-style-type: none"> <li>Empowers managers to achieve program goals.</li> </ul>   | 3.30        |
| 10. The State lacks a credible statewide approach to monitoring program outcomes.                              | <ul style="list-style-type: none"> <li>Develop and monitor the outcome measures for major State programs.</li> </ul>  | <ul style="list-style-type: none"> <li>Enables the General Assembly and the public to monitor the effectiveness of State programs.</li> </ul>                       | 3.33        |
| 11. The State lacks a policy for initiating and conducting periodic in-depth evaluations of program results.   | <ul style="list-style-type: none"> <li>Initiate systematic, in-depth evaluations of program results:               <ul style="list-style-type: none"> <li>Designate a State entity to be responsible for initiating and overseeing evaluations of program results</li> <li>Adopt a policy for selecting programs for evaluation and for determining the frequency of evaluations</li> <li>Establish a mechanism for ensuring that the results of these program evaluations are considered in the State policy, planning, and budgeting processes</li> </ul> </li> </ul> | <ul style="list-style-type: none"> <li>Provides for the in-depth evaluation of program results needed for effective legislative and executive oversight.</li> </ul> | 3.34        |